

9.1 Understanding Personal Finance – Overview

Definitions and Formulas

Net income (take home pay) is equal to total, or gross, income minus all taxes.

$$\text{Net income} = \text{Salary} - \text{Taxes}$$

Example: Hannah makes \$45,000 per year and expects to pay approximately 20% for all taxes.

- a) How much of her income can Hannah expect to pay in taxes?

$$\text{Taxes} = \text{Salary} \times \text{Tax rate} = 45,000 \times \frac{20}{100} = \$9,000$$

- b) What is Hannah's net income?

$$\text{Net income} = \text{Salary} - \text{taxes} = 45,000 - 9,000 = \$36,000$$

- c) What is Hannah's monthly take-home pay?

$$\text{Monthly take home pay} = \frac{\text{Net income}}{12} = \frac{36,000}{12} = \$3,000$$

Disposable income is the money left over after taxes and expenses.

$$\text{Disposable income} = \text{Net income} - \text{Expenses}$$

List price is the price of an item as it is listed for public sale.

$$\text{Total price} = \text{List price} + \text{Taxes}$$

$$(\text{New price} = \text{Original} \oplus \text{Increase})$$

Example: At a restaurant, your total bill was \$70. If you tip 15%, what is the total bill including tip?

$$\begin{aligned} \text{Total} &= \text{original} + \text{Tip} \\ &= 70 + \frac{15}{100} (70) = 70 + 10.50 = \$80.50 \end{aligned}$$

$\frac{15}{100} = 0.15$

Discount is the reduction from the list price. This is usually given as a percentage of the list price.

$$\text{Discount \$} = \text{List price} \times (\text{Discount \%} / 100)$$

Sale price (aka net price) is the actual cost of an item after a discount of some kind is applied.

$$\text{Sale price} = \text{List price} - \text{Discount}$$

$$(\text{New price} = \text{Original} \ominus \text{Decrease})$$

Example:

- a) A new computer is listed at \$899 but is on sale for 20% off. What is the sale price (before taxes)?

$$\begin{aligned} \text{Sale price} &= 899 - \underbrace{0.20 (899)}_{20\% \text{ of } 899} = 899 - 179.80 = \$719.20 \end{aligned}$$

- b) Evan bought a gaming system on sale for \$198.45. The list price of the system was \$330.75. What was the (approximate) percentage discount?

$$\text{Discount \%}$$

$$\text{Discount \$}$$

$$\begin{aligned} \text{Discount \$} &= \text{List price} - \text{Sale price} \\ &= 330.75 - 198.45 \\ &= 132.30 \end{aligned}$$

$$\begin{aligned} \text{Discount \% of List price} &= \text{Discount \$} \\ &\div 330.75 = 132.30 \\ &\times (330.75) = 132.30 \\ &= 40\% \end{aligned}$$

Change (absolute change) = New value - Reference (Original) value

Ex) Bought a snowboard for \$20, sold it for \$30 ----> Change = \$30 - \$20 = \$10 increase

Percentage change (relative change)

$$\text{percentage change} = \frac{\text{new value} - \text{reference value}}{\text{reference value}} \cdot 100\%$$

Ex) $\frac{\$30 - \$20}{\$20} \times 100 = 50\% \text{ increase}$

Example: Two years ago, Maci bought an iPad for \$499. After the release of the newer iPad, the iPad that Maci bought could be purchased for \$350. What is the approximate percent change in the cost of the iPad?

new value % change = $\frac{350 - 499}{499} \times 100 = -29.86\%$
↓ \$ decrease

Examples

Example 1: Chloe found a receipt for a pair of sunglasses for \$127.18, tax included. If the sales tax rate was 6%, what was the list price of the sunglasses? Round your answer to the nearest cent.

Total = original + Taxes

$$127.18 = 1x + 0.06x$$

$$\frac{127.18}{1.06} = \frac{1.06x}{1.06}$$

$$x = \$119.98$$

Example 2: During the last year the value of your house decreased by 30%. If the value of your house is \$194,000 today, what was the value of your house last year? Round your answer to the nearest cent, if necessary.

% change → $-\frac{30\%}{100} = \frac{194,000 - x}{x} \times \frac{100}{100}$

OR $x - 0.3x = 194,000$

$$0.7x = 194,000$$

$$x = \$277,142.86$$

$$x \cdot -0.3 = \frac{194,000 - x}{x} \cdot x$$

$$-0.3x = 194,000 - 1x$$

$$+1x \quad +1x$$

$$0.7x = 194,000$$

$$x = 277,142.8571 \quad \text{round 2 place}$$

$$x = \$277,142.86$$

Example 3: The value of your stock investment decreased by 28% after a stock market crash. What percentage increase in value would the stocks have to rise in order to return to the value they were before the stock market crash? Round your answer to the nearest tenth of a percent.

① new = original - decrease

$$= 1000 - 0.28(1000)$$

$$= 720$$

② % change = $\frac{1000 - 720}{720} \times 100$

$$= 38.9\%$$

 rounded

